

U.S. ECO ONLINE
A SELECTION OF DOCUMENTS RECENTLY PUBLISHED ON THE WEB

Nº 80 – January 2006

GENERAL INTEREST

Marc A. Miles, Kim R. Holmes, and Mary Anastasia O'Grady, editors.

2006 Index Of Economic Freedom

Heritage Foundation; Wall Street Journal. Web-posted January 2006. [Full Report -- 440 pages]

<http://www.heritage.org/research/features/index/downloads.cfm>

“This 12th edition of the Index documents the correlation between freedom and prosperity. Countries that improve their scores in 10 categories of economic freedom -- trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation and informal (or black) market activity -- tend to see their standards of living and per capita incomes rise. Data gathered for the 2006 Index show a net increase in global economic freedom.”

Barry Eichengreen

Global Imbalances: The Blind Men and the Elephant

The Brookings Institution– Issue Paper – January 2006 – 25p

http://www.brookings.edu/views/papers/200601_iiiep_eichengreen.htm

“This paper reviews competing explanations for the pattern of global imbalances and the magnitude of the U.S. external deficit. It argues that, far from being incompatible, existing explanations are all parts of the larger story. The decline in savings rates in the United States has played an important role in the emergence of global and U.S. imbalances. At the same time, favorable productivity trends have made the U.S. a more appealing place to invest, attracting foreign savings that help to underwrite U.S. investment and finance the current account. The so-called global savings glut is a factor in the global imbalance insofar as it supports capital flows to and investment in the United States.”

Benn Steil and Robert E. Litan

Financial Statecraft: The Role of Financial Markets in American Foreign Policy

Council on Foreign Relations – Book excerpts - January 2006 – 18 pages

http://www.brookings.edu/views/papers/litan/steil_litan_excerpts.pdf

“Trade is not the only way in which nations interact economically. Over the past two decades, another form of economic exchange has risen to a level of vastly greater significance and political concern: the purchase and sale of financial assets across borders. Nearly \$2 trillion worth of currency now moves cross-border every day, roughly 90 percent of which is accounted for by financial flows unrelated to trade in goods and services—a stunning inversion of the figures in 1970. The time is ripe to ask fundamental questions about what Benn Steil and Robert Litan have coined as “financial statecraft,” or those aspects of economic

statecraft directed at influencing international capital flows. How has the American government practiced financial statecraft? How effective have these efforts been? How can they be made more effective?"

Matthew Higgins, Thomas Klitgaard, and Cédric Tille

The Income Implications of Rising U.S. International Liabilities

FRB of New York – Issue Paper – December 2005 – 8p

http://www.newyorkfed.org/research/current_issues/ci11-12/ci11-12.html

“Although the United States has seen its net liabilities surge in recent years, its investment income balance has remained positive—largely because U.S. firms operating abroad earn a higher rate of return than do foreign firms operating here. The continuing buildup in liabilities, however, should soon push the U.S. income balance below zero. In that event, net income flows will begin to boost the nation’s current account deficit instead of reducing it”.

Dimitri B. Papadimitriou, Edward Chilcote, Gennaro Zezza

Are Housing Prices, Household Debt, and Growth Sustainable?

The Levy Economics Institute of Bard College – Strategic Analysis - January 2006 – 12 pages

http://www.levy.org/default.asp?view=publications_view&pubID=108580b2346

“Rising home prices and low interest rates have fueled the recent surge in mortgage borrowing and enabled consumers to spend at high rates relative to their income. Low interest rates have counterbalanced the growth in debt and acted to dampen the growth in household debt-service burdens. As past Levy Institute strategic analyses have pointed out, these trends are not sustainable: Household spending relative to income cannot grow indefinitely.”

ECONOMIC OUTLOOK

Ill Winds Can’t Blow U.S. Economy Off Course

FRB Atlanta - Econ South - Fourth Quarter 2005

<http://www.frbatlanta.org/invoke.cfm?objectid=7C786700-5056-9F06-99C2D0ABAFEBBC55&method=display>

“Three destructive fall hurricanes severely disrupted regional economic activity, yet the nation’s economy appears to have preserved its momentum going into 2006. Consumer inflation, outside of direct energy costs, has remained remarkably low. Unusually high energy costs during the winter should not significantly slow the pace of overall consumer spending or business investment, and the economy should continue to grow in the 3–4 percent range in 2006.”

Governor Susan Schmidt Bies

Productivity and Economic Outlook

The Federal Reserve Board - Speech- January 18, 2006 -

<http://www.federalreserve.gov/boarddocs/speeches/2006/20060118/default.htm>

“I appreciate the opportunity to speak with you today about productivity and the outlook for the U.S. economy. As you know, long-term growth in productivity is critically important to improving the standard of living in any economy. The rate of growth of productivity can significantly affect inflation and economic expansion. But before I comment on productivity, I'd like to begin with a review of recent economic developments.”

Jeffrey M. Lacker

The Economic Outlook for 2006

FRB of Richmond – Speech - January 20, 2006

http://www.richmondfed.org/news_and_speeches/presidents_speeches/index.cfm/id=79

“Policymakers will need to be alert for movements in economic fundamentals that shift the relative pressure on current versus future resources in ways that require changes in real interest rates, even if inflation pressures subside”.

TAX AND FISCAL POLICIES

Ana Isabel Eiras

The Fiscal Burden of Government Is Undercutting U.S. Competitiveness

The Heritage Foundation - Backgrounder #1906 - January 4, 2006 – 7 pages

<http://www.heritage.org/Research/TradeandForeignAid/bg1906.cfm>

“According to the 2006 Index of Economic Freedom, just published by The Heritage Foundation and the Wall Street Journal, America’s economic freedom rank-ing has trended down since the Index’s inception in 1995...Both the Bush Administration and Congress should support policies that advance economic freedom so that the U.S. economy can continue to grow strongly and provide the resources to main-tain America’s high living standards and to con-tinue its role as a world leader. To that end, the Bush Administration and Congress should cut spending to balance the federal budget, lower cor-porate and personal income taxes, and continue to support the expansion of economic freedom.”

Stephen J. Entin

Analysis of Tax Reform Panel Proposals (Part 1)

IRET - Congressional Advisory #198 - January 19, 2006 – 14 pages

<ftp://ftp.iret.org/pub/ADVS-198.PDF>

“This is the first of a series of four papers that will examine the proposals of the President’s Advisory Panel on Federal Tax Reform... The first paper will provide some background on the basic principles of taxation, and review how the current income tax retards economic growth by interfering with saving and investment decisions and creating other economic distortions. It will discuss how the Panel handled the question of what tax base, income or consumption, is better for growth, and how the Panel proposed to correct the distortions created by the current code.”

Mandatory Spending: Using Budget Triggers to Constrain Growth

GAO – Report to Congress – January 2006 – 107p

<http://www.gao.gov/cgi-bin/getrpt?GAO-06-276>

“By identifying significant increases in the spending path of a mandatory program relatively early and acting to constrain it, Congress may avert larger financial challenges in the future. However, both in establishing triggers and in designing the subsequent responses, the integrity of program goals needs to be preserved. In addition, tax expenditures operate like mandatory programs but do not compete in the annual appropriations process. The analysis GAO applied to spending in this report would also be useful in examining tax expenditures”.

Brian M Riedl

Six Budget Reforms to Restrain Lobbyists and Special Interests

The Heritage Foundation - WebMemo #968 - January 27, 2006

<http://www.heritage.org/Research/Budget/wm968.cfm>

“Aggressive lobbying is the predictable result of a larger problem: a massive federal government that imposes itself on every facet of economic life through high taxes, large subsidies, and expensive regulations... Big government and corruption go hand in hand... Restraining the influence of special interests will not be possible until Congress restrains its own expansion into every nook and cranny of the American economy. The key, then, is budget reform... The six reforms described in this paper would do more to change the role of money in politics than any “lobbying reform” effort alone.”

Chris Edwards, Director of Tax Policy Studies, Cato Institute

State Revenue Boom Paves Way for Tax Cuts

Cato Institute - Tax and Budget Bulletin - January 2006

<http://www.uptilt.com/c.html?rtr=on&s=77z,hzhg,10k2,l75p,49ro,lvwc,44m4>

“Rather than expand their budgets, states should use current surpluses to reform their tax codes in order to boost long-run economic growth. Most states have the budget room to make substantial tax cuts and tax reforms—three quarters of the states had tax revenue growth of 6 percent or more in 2005”.

MONETARY POLICY

Timothy F. Geithner

Policy Implications of Global Imbalances

FRB of New York - Speech - January 23, 2006

<http://www.newyorkfed.org/newsevents/speeches/2006/gei060123.html>

“We live with considerable uncertainty about the sustainability of the pattern of global capital flows and the relatively low risk premia that prevail today. That uncertainty necessarily adds to the normally substantial degree of uncertainty we face in making monetary policy judgments. And it reinforces the case for preserving confidence in our commitment to keep underlying inflation low over time, and for retaining the capacity to respond with flexibility to the challenges we face in this uncertain world”.

Jeffrey M. Lacker

The Economic Outlook for 2006

FRB of Richmond - Speech - January 20, 2006

http://www.richmondfed.org/news_and_speeches/presidents_speeches/index.cfm?id=79

“Policymakers will need to be alert for movements in economic fundamentals that shift the relative pressure on current versus future resources in ways that require changes in real interest rates, even if inflation pressures subside”.

John W. McPartland

Foreign Exchange Trading and Settlement: Past and Present

FRB Chicago - Fed Letter - February 2006 - 4 pages

http://www.chicagofed.org/publications/fedletter/cflfebruary2006_223.pdf

“Since 1989, global foreign exchange turnover (and settlements) has more than tripled, to just over \$2 trillion per day. This article expands upon a January 2005 Chicago Fed Letter that described broad clearing and settlement principles, and focuses more specifically on foreign exchange settlement practices, past and present”.

President Richard W. Fisher

Coping with Globalization's Impact on Monetary Policy,

FRB Dallas – Remarks - January 6, 2006

<http://www.dallasfed.org/news/speeches/fisher/2006/fs060106.html>

“Presidents Clinton and Bush have allowed the Fed to operate with a high degree of political independence from the administration. On the whole, Congress has also wisely refrained from interference. Without its independence from political interference, I doubt the Fed could have so successfully set the interest rates that have led to today’s favorable economic circumstances. Just as I doubt that, without independence from rigid econometric dicta, monetary policy could have so adroitly harnessed, and in turn lubricated, the forces of globalization.”

William R. Cline

The Case for a New Plaza Agreement

Institute for International Economics - Policy Brief – December 2005 – 10 pages

<http://www.iie.com/publications/pb/pb05-4.pdf>

“The United States is running an increasing risk by allowing its external current account deficit to rise to levels historically unprecedented for the United States and most other industrial countries. This trend can be arrested through a credible program to eliminate the US fiscal deficit by 2010 combined with an accord, like the Plaza Agreement of 1985, to achieve appreciation of a wide array of foreign currencies against the dollar.”

Morris Goldstein

Renminbi Controversies

Institute for International Economics - Paper – December 2005 – 14 pages

<http://www.iie.com/publications/papers/goldstein1205.pdf>

“China needs to make a credible and significant downpayment on eliminating the large undervaluation of the renminbi by implementing a 10 to 15 revaluation of the renminbi within the next six to twelve months. The 2 percent revaluation of the renminbi vis-à-vis the dollar—announced as part of the July 21 currency reform—has been followed by only trivially small further renminbi appreciation, with adverse implications for correcting both China's now huge overall current account surplus and global payments imbalances elsewhere. Goldstein finds unpersuasive the argument that such a revaluation of the renminbi would be harmful for China's growth performance.”

FINANCE

Panos Konstas

Reforming Deposit Insurance: The Case to Replace FDIC Protection with Self-Insurance

The Levy Economics Institute of Bard College – Public Policy Brief - January 2006 – 8 pages

http://www.levy.org/default.asp?view=publications_view&pubID=108bf3ae78d

“The Federal Deposit Insurance Corporation (FDIC) currently insures bank deposit balances up to \$100,000. According to some observers, statutory protection creates moral hazard problems for insurers because it allows banks to engage in risky activities... This brief by Konstas outlines a plan to reduce the risk of government losses by replacing insured deposits with uninsured deposits and eliminating some of the costs of deposit insurance.”

Edward Chilcote

Credit Derivatives and Financial Fragility

The Levy Economics Institute of Bard College – Policy Note 2006/1 - 6 pages

http://www.levy.org/default.asp?view=publications_view&pubID=108bf49ec09

“On September 15, the Federal Reserve convened 14 large credit derivatives-dealer banks to an unusual meeting (Beales 2005b). The last such meeting occurred on September 16, 1998, in secret. At that time, a major financial institution was melting down and threatening to take some large banks with it. This time they met to discuss the same topic: the clearing of transactions in the credit derivatives market.”

An Informed Discussion: Achieving Sustainability, Scale, and Impact in Community Development Finance - A Conference Summary

FRB Chicago - Profitwise News and Views - December 2005 Special Edition – 20 pages

http://www.chicagofed.org/community_development/files/12_2005_pnv.pdf

“On April 21 and 22, 2005, the Consumer and Community Affairs (CCA) division of the Federal Reserve Bank of Chicago, in conjunction with the Aspen Institute's Economic Opportunities Program, convened An Informed Discussion: Achieving Sustainability, Scale, and Impact in Community Development Finance. The conference highlighted business models and industry structures that have led to successful products, organizations, and industries both within and outside of the community development finance field, and issues faced by Community Development Financial Institutions (CDFIs) and the community development industry in trying to achieve greater impact.”

Kathleen W. Johnson

Recent Developments in the Credit Card Market and the Financial Obligations Ratio

Federal Reserve Bulletin – Autumn 2005 – 14 pages

http://www.federalreserve.gov/pubs/bulletin/2005/autumn05_lead.pdf

“Over the past fifteen years, U.S. households in the aggregate have devoted an increasing share of their after-tax income to the payment of financial obligations. Much of the increase is attributable to a rise in the level of credit card debt, which has raised the share of households' aggregate after-tax income that is devoted to credit card payments. In turn, the rising share of credit card debt in overall financial obligations may stem from several notable changes in the credit card market over this period.”

AGRICULTURE

Nancy Novack

U.S. Agricultural Credit Conditions: Rising Energy Prices Boost Farm Costs

Main Street Economist – Issue Paper – November 2005

http://www.kc.frb.org/RuralCenter/mainstreet/MSE_1105.pdf

“Two years of record farms income have provided a cushion for the farm economy during a period of rapidly rising input costs. Livestock producers are expected to enjoy another strong income year as demand and prices remain strong”.

ENERGY

Energy Prices and the Economy

Joint Economic Committee – Study – January 2006

<http://www.house.gov/jec/publications/109/energy01-26-06.pdf>

“The U.S. economy is now much more able to withstand energy price shocks than it was 25 years ago. The study examines how the U.S. economy has become more energy efficient, less energy intensive, and more resilient in recent decades. As a result, past studies suggesting that significant oil price increases would lead to sharp declines in GDP growth were not reliable guides in predicting the course of economic growth in recent years. However, higher energy prices continue to have potential negative economic effects, even if they are much less severe than during the 1970s and early 1980s”.

Energy Markets: Factors Contributing to Higher Gasoline Prices

GAO – Testimony – February 1, 2006 – 13p

<http://www.gao.gov/cgi-bin/getrpt?GAO-06-412T>

“Given the importance of gasoline for the nation’s economy, it is essential to understand the market for gasoline and how prices are determined. In this context, this testimony addresses the following questions: (1) What factors affect gasoline prices? (2) What has been the pattern of oil company mergers in the United States in recent years? (3) What effects have mergers had on market concentration and wholesale gasoline prices”?

Do Oil Futures Prices Help Predict Future Oil Prices?

FRB of San Francisco – Economic Letter – December 30, 2005 – 4p

<http://www.frbsf.org/publications/economics/letter/2005/el2005-38.html>

“The price of oil has risen by about 60% since mid-2004 and by more than 40% since the beginning of 2005. Though the U.S. economy has apparently absorbed this supply shock well so far, the path of future oil prices remains a concern for monetary policymakers. Higher oil prices can damp demand, as consumers and firms spend more of their budgets on oil-related products and less on other goods and services. Furthermore, if higher oil prices are passed through to a significant extent to other goods and services and ultimately wages, inflationary pressures can build”.

Jerry Taylor and Peter Van Doren

Economic Amnesia: The Case against Oil Price Controls and Windfall Profit Taxes

Cato Institute – Policy Analysis - January 12, 2006 – 20p

http://www.cato.org/pub_display.php?pub_id=5352

“There is no evidence to suggest that recently reported oil company profits are particularly large when contrasted with the profit margins of all public companies. Profits in the oil sector have historically been lower than profits in the rest of the U.S. economy, so profits would have to be quite large for some time before they equaled returns in other sectors of the economy. Restricting profit opportunities now would amount to a form of one-way capitalism in which meager profits are allowed but more robust profits are

punished. Intervention under those conditions would certainly reduce the incentive to invest in the oil business”.

TRANSPORTATION

Clifford Winston

Deregulating the Rails

The Brookings Institution – Article - December 8, 2005

<http://www.brookings.edu/views/op-ed/winston/20051208.htm>

“Deregulation of U.S. industry has been such a controversial issue for the past few decades that it is perhaps understandable that people do not realize that one deregulatory initiative — the 1980 Staggers Act that deregulated the rail freight industry — surprisingly turned out to benefit both consumers and the industry”.

Randal O'Toole

A Desire Named Streetcar: How Federal Subsidies Encourage Wasteful Local Transit Systems

Cato Institute - Policy paper – December 2006 – 16 pages

<http://www.cato.org/pubs/pas/pa559.pdf>

“The nation's mass transit system is a classic example of how special interests prevail over the needs and interests of voters and taxpayers. Total inflation-adjusted subsidies to transit-buses and trains have more than doubled since 1990, yet total ridership has increased by less than 10 percent. Train ridership has dropped dramatically while automobile use has skyrocketed. The ideal solution would be to devolve transit and other transportation funding entirely to state and local governments. Short of that, Congress should reform the federal transportation funding system to minimize the adverse incentives it creates.”

Future Highway and Public Transportation Finance

U.S. Chamber of Commerce and National Chamber Foundation - Study – Executive Summaries – 2005

<http://www.uschamber.com/NR/rdonlyres/ehezkyo2b7sm5xv33grprwecajd44h3xuwzliwbddy64725l5q3gfm>

<http://www.uschamber.com/NR/rdonlyres/e2bu5ecxnmcn6s6wjggmywiumxrhbdllcqe5dk27ucsuzuep4lqqgmz5l4titee6b646ai727ycrmazajv6dqefce/TransExecSummaryWeb.pdf>

“The objective of this two-phased study is to identify funding mechanisms to meet national highway and transit investment needs. This study identifies funding mechanisms to meet our nation's highway and transit needs and is one of the first studies to address both capital and operating needs for highways and transit systems at all levels of government. The second and final phase addresses long-term funding mechanisms, including alternatives to the current fuel tax-based system. Phase I focused on short-term funding for the period 2005 through 2015.”

EMPLOYMENT

Stacey L. Schreft, Aarti Singh, and Ashley Hodgson

Jobless Recoveries and the Wait-and-See Hypothesis

FRB of Kansas City – Economic Review – Fourth quarter 2005 – 19p

<http://www.kc.frb.org/publicat/econrev/PDF/4q05schr.pdf>

“This article considers the behavior of employment in the first three years of the jobless recoveries and describes how a wait-and-see approach to hiring can contribute to such recoveries”.

John J. Fitzpatrick

State Labor Legislation Enacted in 2005

Monthly Labor Review – Report – January 2006 -

<http://www.bls.gov/opub/mlr/2006/01/art1full.pdf>

“Minimum wage, child labor, drug and alcohol testing, equal employment opportunity, human trafficking, overtime, plant closings, prevailing wage, time off, wages paid, and worker privacy were among the most active categories of labor legislation enacted or amended during the year.”

INTERNATIONAL TRADE

Anthony B. Kim and Daniella Markheim

Time to Put a U.S.-South Korea Free Trade Agreement on the Fast-Track Agenda

The Heritage Foundation – Issue Paper - January 23, 2006

<http://www.heritage.org/Research/AsiaandthePacific/wm964.cfm>

“After months of effort, South Korea has reportedly advanced to the last stages of discussions on beginning formal negotiations with the United States to strike a free trade agreement (FTA). An FTA with South Korea would advance the interests of U.S. businesses and consumers, expand trade and investment opportunities with a close ally, and reaffirm America’s leadership on trade. In response to Seoul’s recent positive steps towards reducing trade barriers against America’s goods, Washington should add U.S.-South Korea FTA negotiations to the fast-track agenda.”

Sidney Weintraub

U.S.-Latin American Attitudes: The WTO's Uncertain Future

CSIS - Issues in International Political Economy – January 14, 2006

<http://www.csis.org/media/csis/pubs/issues200601.pdf>

“The World Trade Organization (WTO) is made up of three major groups of nations: the developed industrial, or post-industrial, countries; the emerging countries that are important traders; and the developing countries, including the least developed among them. There is some overlap, but this tripartite division is useful in understanding what happened at the Hong Kong ministerial meeting in December; and it is even more valuable in assessing the future dynamism of the WTO.”

U.S.-China Trade: Eliminating Nonmarket Economy Methodology Would Lower Antidumping Duties for Some Chinese Companies

GAO -Report - January 10, 2005 - 62 pages

<http://www.gao.gov/cgi-bin/getrpt?GAO-06-231>

“U.S. companies adversely affected by unfair imports may seek a number of relief measures, including antidumping (AD) duties. The Department of Commerce (Commerce) classifies China as a nonmarket economy (NME) and uses a special methodology that is commonly believed to produce AD duty rates that are higher than those applied to market economies. Commerce may stop applying its NME methodology if it finds that China warrants designation as a market economy.”

DEVELOPMENT

The Glocal Forum

<http://www.glocalforum.org/>

“Glocalization is a term that requires some explanation. The term is meant to serve as a new paradigm for international relations and an innovative practice of development cooperation. The Glocal Forum is a way for a diverse set of policymakers and concerned citizens to maintain a sustained dialogue on how this paradigm (and its attendant processes) may transform local communities in a positive and equitable fashion. The Forum’s homepage contains links to three separate initiatives, including the Glocal ECities Network and the Glocal Forum US.”

Kenneth Dam

Institutions, History, and Economic Development

The Brookings Institution - John M. Olin Law & Economics Working Paper No. 271- January 2006 – 29 pages

<http://www.brookings.edu/views/papers/200601dam.pdf>

“If one wants insight into how the developing world can attain the Rule of Law, one good place to start would be to ask how countries in today's developed world did it. Though the developed world now stretches well beyond the countries of Western Europe where the Rule of Law first arose, developed countries such as the United States, Canada and Australia—and in a less direct fashion, Japan—were blessed with a successful transplant of Western European legal institutions. Perhaps the Western European experience can provide insights into how this process of legal institutional development can succeed in developing countries where the transplant remedy is obstructed by historical, societal, or other differences from Western European nations.”

MISCELLANEOUS

Thomas A. Garrett and William Poole

Stop Paying More for Less: Ways to Boost Productivity in Higher Education

FRB Saint Louis – The Regional Economist – January 2006

http://stlouisfed.org/publications/re/2006/a/pages/higher_education.html

“College tuition has increased dramatically over the past decade, yet few think the quality of graduates has kept up. Decentralizing the administration and privatizing such things as housing and food service would boost productivity, as would ditching tenure and improving teaching.”

Paul A. Jargowsky and Isabel V. Sawhill

The Decline of the Underclass

Brookings Institution – Brief - January 2006 – 7 pages

<http://www.brookings.edu/es/research/projects/wrb/publications/pb/pb36.pdf>

“Hurricane Katrina reminded the nation of the consequences of entrenched poverty, and Congress now faces complicated policy questions set against the backdrop of class and race. As America confronts these issues in cities and states beyond the Gulf Coast, it is important to realize that the number of poor people living in troubled neighborhoods—often described by journalists as the "underclass"—are actually fewer now than in

the 1980s. Yet public policies that encourage education, work, and opportunity are urgently needed to keep that positive trend from reversing.”